

LOS ANGELES UNIFIED SCHOOL DISTRICT

Audit Report

MANDATE REIMBURSEMENT PROCESS PROGRAM

Chapter 486, Statutes of 1975,
and Chapter 1459, Statutes of 1984

July 1, 1999, through June 30, 2001



STEVE WESTLY
California State Controller

November 2004



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California State Controller

November 30, 2004

Roy Romer, Superintendent
Los Angeles Unified School District
333 South Beaudry Avenue 24th Floor
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office audited the claim filed by the Los Angeles Unified School District for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984). The audit period initially included the claim for FY 2001-02. However, upon completion of fieldwork, the district amended its FY 2001-02 claim. An audit of the claim for FY 2001-02 may be conducted at a later date.

The district claimed \$1,179,775 for the mandated program. Our audit disclosed that \$1,097,893 is allowable and \$81,882 is unallowable. The unallowable costs occurred because the district claimed costs that were unsupported. The State paid the district \$1,080,841. Allowable costs claimed exceed the amount paid by \$17,052.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: (See page 2)

cc: Kenneth C. Gotsch
Chief Financial Officer
Los Angeles Unified School District
Richard Knott, Controller
Los Angeles Unified School District
Darline P. Robles, Ph.D., County Superintendent of Schools
Los Angeles County Office of Education
Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Arlene Matsuura, Educational Consultant
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
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Audit Report

Summary

The State Controller's Office (SCO) audited the claim filed by the Los Angeles Unified School District for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1999, through June 30, 2001. The audit period initially included the claim for fiscal year (FY) 2001-02. However, upon completion of fieldwork, the district amended its FY 2001-02 claim. An audit of the claim for FY 2001-02 may be conducted at a later date. The last day of fieldwork was April 15, 2004.

The district claimed \$1,179,775 for the mandated program. The audit disclosed that \$1,097,893 is allowable and \$81,882 is unallowable. The unallowable costs occurred because the district claimed costs that were unsupported. The State paid the district \$1,080,841. Allowable costs claimed exceed the amount paid by \$17,052.

Background

Chapter 486, Statutes of 1975, authorizes the SCO to receive, review, and pay reimbursement claims for mandated costs submitted by local governments. In 1984, the State enacted Chapter 1459, Statutes of 1984, which established the "sole and exclusive procedure" for school districts to claim reimbursements for state-mandated costs under *Government Code* Section 17552. The legislation established the process for school districts to receive reimbursement for state-mandated costs and prescribe the procedures that must be followed in filing the claim before mandated costs are recognized.

On March 27, 1986, the Commission on State Mandates (COSM) determined that Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984, imposed a state mandate upon school districts and local agencies reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by COSM on March 27, 1986, (and amended each year after the enactment of the Budget Act) establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement, to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1999, through June 30, 2001.

The audit scope included determining whether costs claimed were supported by source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district to submit a written representation letter regarding its accounting procedures, financial records, and mandated cost claiming procedures, as recommended by *Government Auditing Standards*. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Los Angeles Unified School District claimed \$1,179,775 for costs of the legislatively mandated Mandate Reimbursement Process Program. Our audit disclosed that \$1,097,893 is allowable and \$81,882 is unallowable.

For FY 1999-2000, the district was paid \$584,264 by the State. Our audit disclosed that \$502,382 is allowable. The amount paid in excess of allowable costs claimed, totaling \$81,882, should be returned to the State.

For FY 2000-01, the district was paid \$496,577 by the State. Our audit disclosed that \$595,511 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$98,934, will be paid by the State based on available appropriations.

Views of Responsible Official

We issued a draft audit report on August 13, 2004. The district did not respond to the draft report. At the district's request, we granted three separate extensions between September 3, 2004, and October 20, 2004, for the district to respond. In addition, we sent a follow-up e-mail on November 2, 2004, advising the district that a response was not received.

Restricted Use

This report is solely for the information and use of the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2001

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 81,773	\$ 11,814	\$ (69,959)	Finding 1
Materials and supplies	8,165	—	(8,165)	Finding 1
Services	<u>490,000</u>	<u>490,000</u>	<u>—</u>	
Subtotals	579,938	501,814	(78,124)	
Indirect costs	<u>4,326</u>	<u>568</u>	<u>(3,758)</u>	Finding 1
Total costs	<u>\$ 584,264</u>	502,382	<u>\$ (81,882)</u>	
Less amount paid by the State		<u>(584,264)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (81,882)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 24,415	\$ 24,415	\$ —	
Materials and supplies	63	63	—	
Services	<u>570,000</u>	<u>570,000</u>	<u>—</u>	
Subtotals	594,478	594,478	—	
Indirect costs	<u>1,033</u>	<u>1,033</u>	<u>—</u>	
Total costs	<u>\$ 595,511</u>	595,511	<u>\$ —</u>	
Less amount paid by the State		<u>(496,577)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 98,934</u>		
<u>Summary: July 1, 1999, through June 30, 2001</u>				
Salaries and benefits	\$ 106,188	\$ 36,229	\$ (69,959)	Finding 1
Materials and supplies	8,228	63	(8,165)	Finding 1
Services	<u>1,060,000</u>	<u>1,060,000</u>	<u>—</u>	
Subtotals	1,174,416	1,096,292	(78,124)	
Indirect costs	<u>5,359</u>	<u>1,601</u>	<u>(3,758)</u>	Finding 1
Total costs	<u>\$ 1,179,775</u>	1,097,893	<u>\$ (81,882)</u>	
Less amount paid by the State		<u>(1,080,841)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 17,052</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unsupported salaries,
benefits, and related
indirect costs**

The district did not support \$69,959 in salary and benefit costs for FY 1999-2000. The related indirect cost is \$3,365.

Unsupported salary and benefit costs were based on memoranda, faxed cover sheets, and a declaration of time spent on the mandate maintained by the district's consultant. The claimed hours were not corroborated by source documents, such as time records, time logs, or calendars.

Parameters and Guidelines for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activity and supported by appropriate documentation are reimbursable.

Recommendation

The district should ensure that all claimed costs are properly supported. Documentation should identify the mandated functions performed and the actual number of hours devoted to each function.

**FINDING 2—
Unsupported
materials, supplies,
and related indirect
costs**

The district did not support \$8,165 of materials and supplies costs for FY 1999-2000. The related indirect cost is \$393.

Unsupported material and supply costs were based on an e-mail from the district's mandated costs consultant, dated January 23, 2004, that estimated the costs of postage, photocopies, and binders used to store mandate-related documents. The district did not provide any other documentation supporting the validity of such costs.

Parameters and Guidelines for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activity and supported by appropriate documentation are reimbursable.

Recommendation

The district should ensure that all claimed costs are properly supported. Documentation should identify the mandated functions and costs devoted to each function.

**State Controller's Office
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